

Long-Term Care Hospital Prospective Payment System



What Was the Original 25 Percent Threshold Rule for Co-Located LTCHs?

In the FY 2005 Inpatient Prospective Payment Systems (IPPS) final rule, the Centers for Medicare & Medicaid Services (CMS) established special payment provisions for subclause (I)¹ Long-Term Care Hospitals (LTCHs) that are a hospital-within-a-hospital (HwH) or a satellite of an LTCH that was **co-located** with a host hospital or campus. A “host” is generally an acute care hospital but could include other types. A “campus” generally includes any facility within 250 yards of the main buildings of an acute care hospital. In order to ensure that two payments² were not made for a single episode of care, when the episode could have been effectively concluded in the acute care hospital admission, CMS established an additional payment adjustment for **co-located** facilities.

This payment adjustment was commonly called the 25 percent payment threshold policy, and applied to the LTCH discharge payment amount. Under this rule, if more than 25 percent of an LTCH HwHs, or an LTCH satellite's discharges for a cost report period were admitted from its co-located host hospital, the payment to the LTCH for that cost report period was adjusted (usually downward) for all discharges subsequent to surpassing the 25 percent threshold. The net payment amount to the LTCH for such discharges was equivalent to the lesser of the initial LTCH payment, or what Medicare would otherwise have paid under the IPPS. In special situations (rural LTCHs or satellites, admissions from urban single or MSA dominant hospitals), the payment threshold was raised up to 50 percent.

Acute hospital episodes that qualified as outliers and LTCH admissions that were referred from acute care hospitals not considered to be co-located facilities, did not apply to this policy. In addition, this adjustment policy did not apply to freestanding or grandfathered subclause (I) LTCHs, or any subclause (II) LTCHs.

Simply stated, if a subclause (I) LTCH or satellite admitted patients from any acute care hospital within 250 yards of its location, the 25 percent payment threshold policy applied.

¹ Subclause I and II LTCHs are defined in § 1886(d)(1)(B)(iv)(I)-(II) of Title XVIII of the Social Security Act.

² One discharge payment to the acute care hospital and one to the onsite LTCH HwH or LTCH satellite.

Payment Adjustment Policy Fact Sheet

January 2008



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Why Was the Original 25 Percent Threshold Rule Implemented?

When CMS first established the separateness and control criteria for LTCH HwHs in the FY 1995 IPPS Final Rule, the objective was to address the shifting of costly, long-stay patients from the host to the on-site LTCH. The co-location of facilities creates incentives which could result in two hospital stays, and a financial windfall for both providers for a beneficiary episode, as compared to acute care hospitals that do not have an LTCH HwH and provide care through the entire episode. Subsequent policies extended the separateness and control policies to LTCH satellites. However, provider enrollment data demonstrating an explosive growth in LTCHs from 105 in 1993 (of which 10 were HwHs), to 373 in 2005 (a majority of which were HwHs) suggested that the separateness and control criteria were providing insufficient protections from inappropriate discharges to LTCHs.

Why Was the 25 Percent Threshold Rule Expanded to Other LTCHs beginning July 1, 2007?

As a result of monitoring efforts, CMS has identified patterns of patient shifting and admission practices between LTCHs and referring hospitals that are not co-located, that are similar to those co-located LTCHs to which the Original 25 percent threshold policy applied. Such patterns suggest that LTCHs, whether co-located or not often appear to be functioning as *de facto* step-down units of acute care hospitals, which is not permitted under the Medicare statute. CMS no longer believes that co-location is a prerequisite to inappropriate patient shifting between an acute care hospital and an LTCH, and expanded the policy to freestanding and non co-located LTCH payments through a three-year transition period beginning Rate Year (RY) 2008. CMS believes that establishing this policy will result in hospitalized patients who continue to need acute care hospital treatment to not be shifted to an LTCH setting before the end of a full episode of care, but rather to complete the appropriate treatment at the initial admitting hospital.

How Was the 25 Percent Threshold Rule Expanded to Other LTCHs?

The May 11, 2007, LTCH PPS Final Rule expands the 25 percent payment threshold policy to all subclause (I) LTCHs³, including free-standing, satellite, grandfathered, and co-located facilities (see Table 1).

Under this rule, if more than 25 percent of an LTCH HwHs, or an LTCH satellite's discharges for a cost report period are admitted from any acute care hospital, regardless of location or ownership, the payment to the LTCH for that cost report period is adjusted (usually downward) for all discharges subsequent to surpassing the 25 percent threshold. The net payment amount to the LTCH for such discharges is equivalent to the lesser of: the initial LTCH payment, or what Medicare would otherwise have paid under the IPPS. In special situations (see below), the payment threshold is raised up to 50 percent.

Simply stated, the 25 percent payment threshold policy applies to all subclause (I) LTCHs or satellites admitting patients from any acute care hospital, regardless of the location or ownership of the referring acute care hospital.

³ CMS is excluding Subclause II LTCHs from this provision because designation of these facilities was not solely dependent upon Medicare discharges.

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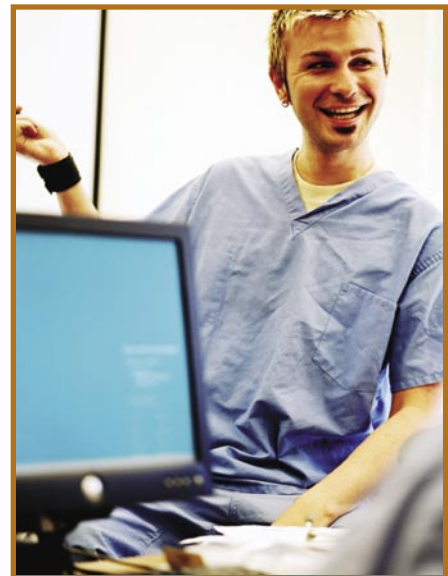
Table 1. Expansion of LTCHs Subject to the 25% Threshold Rule

	Subclause (I) LTCH		Subclause (II) LTCH	
	Original 25 % Threshold Policy	Current 25% Threshold Policy	Original 25 % Threshold Policy	Current 25% Threshold Policy
HwH	Applied	Applies	Did not apply	Does not apply
Co-located LTCH satellite	Applied	Applies	Did not apply	Does not apply
Non co-located LTCH satellite	Did not apply	Applies	Did not apply	Does not apply
Freestanding LTCH	Did not apply	Applies	Did not apply	Does not apply
Grandfathered LTCH or satellite (freestanding, co-located or not co-located)	Did not apply	Applies	Did not apply	Does not apply

However, CMS continues to apply a modified threshold policy, or special treatment, for patients admitted to a subclause (I) LTCH or satellite LTCH located in a rural area, or where the referring hospital is a Metropolitan Statistical Areas (MSA) dominant or sole urban hospital. In such situations, instead of the 25 percent threshold, Medicare provides for a threshold of 50 percent for any qualifying rural LTCH or satellite patients from any referring hospital, and also provides for a threshold of 25-50 percent for LTCH or satellite patients from acute care hospitals that qualify as MSA dominant or sole urban hospitals.

How Will the Updated 25% Threshold Rule Be Phased in for Affected LTCHs and Satellites?

The basic LTCH payment formula under the 25 percent threshold payment adjustment for Medicare discharges from referring hospitals described above has been amended for newly affected providers to permit a transition period for full implementation. Beginning in RY 2008, CMS will implement the 25 percent rule using a three-year transition (see Table 2) to phase in the threshold level permitted for LTCH or satellite admissions from individual acute care hospitals before the adjustment is applied.



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Table 2. Three-year Transition of Full Implementation of Updated 25% Threshold Rule

The Full Payment Threshold Adjustment Will Be Phased In Over 3 years	
Year 1 - cost reporting periods July 1, 2007 - June 30, 2008	Affected subclause (I) LTCHs and LTCH satellites will be paid under the unadjusted LTCH PPS for the percentage of discharges originating from a referring hospital that do not exceed the lesser of the percentage of those patients for their RY 2005 cost reporting period or 75 percent.
Year 2 - cost reporting periods July 1, 2008 - June 30, 2009	Affected subclause (I) LTCHs and LTCH satellites will be paid under the otherwise unadjusted LTCH PPS for the percentage of discharges originating from a referring hospital that do not exceed the lesser of the percentage of those patients for their RY 2005 cost reporting period or 50 percent.
Year 3 - cost reporting periods on or after July 1, 2009	All subclause (I) LTCHs and LTCH satellites subject to the payment threshold policy effective for RY 2008, will be subject to the 25 percent (or applicable special) threshold.

Affected Subclause (I) LTCHs and satellites include:

- **HwH LTCHs** admitting patients from any acute care hospital other than the "host." *NOTE: HwH LTCH patients admitted from the "host" acute care hospital have been fully transitioned under the original 25 percent rule and remain subject to full implementation.*
- **Co-located LTCH satellites** admitting patients from any acute care hospital other than the "host." *NOTE: Co-located LTCH satellite patients admitted from the "host" acute care hospital have been fully transitioned under the original 25 percent rule and remain subject to full implementation.*
- **All non co-located LTCH satellites** admitting patients from any acute care hospital.
- **All freestanding LTCHs** admitting patients from any acute care hospital.
- **All grandfathered LTCHs** or satellites admitting patients from any acute care hospital.

What LTCH Discharge Payments Are Excluded from the 25 Percent Threshold Criteria?

The following LTCH discharge payments would not be subject to the 25 percent threshold rule adjustment:

- If a patient transferred from an acute care hospital that already qualified for outlier payments, the admission would not count as part of the LTCH's allowable percentage from that hospital.
- If the LTCH exceeds its threshold during a cost report year, the LTCH discharges admitted from the admitting hospital prior to reaching the 25 percent (or applicable) threshold would be paid an otherwise unadjusted payment. Only discharges subsequent to surpassing the threshold would be adjusted.
- Subclause (II) LTCHs are excluded from all provisions of the 25 percent threshold policy due to unique factors in how their rates are determined that are incompatible with this policy.

In these situations, the LTCH would be eligible for full payment under the LTCH PPS for the applicable discharges.

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How is This Payment Adjustment Implemented?

The method of determining the threshold varies depending upon whether the LTCH or satellite are co-located with a host hospital or are referred from referral source with which they are not co-located.

Patients admitted to HwH LTCHs or co-located LTCHs from the “host” hospital (excluding those qualifying as outliers) will count towards the threshold amount for the referring acute care hospital. This will be tracked by CMS on a *location specific* basis since the facilities are in the same building or on the same campus. Grandfathered HwH LTCHs or co-located satellites previously excluded from the 25 percent threshold rule are now subject to this methodology as well.

Patients that do not qualify as outliers and who are admitted to freestanding LTCHs or non co-located LTCH satellites (including such grandfathered LTCHs or satellites) will count towards the threshold amount for the referring acute care hospital. This will

be tracked by CMS based upon provider numbers for both the LTCH and the referring acute care hospital. This means that multi-campus referral source acute care hospitals and multi-campus LTCHs or LTCH satellites will be treated as a single entity for this methodology.

What Are the Requirements for Satellite or Remote Locations to Qualify as an LTCH?

In the May 7, 2004, LTCH PPS Final Rule, CMS finalized its clarification of the requirements for a satellite or remote location to qualify as an LTCH. Generally, where a satellite of a LTCH is separating from a parent LTCH, the facility must first be separately certified as a hospital (e.g., an acute care hospital) and then present the hospital's discharge data collected after it was separately certified to show that it has met the Average Length of Stay (ALOS) requirement for five of the six months following certification. If the separation is required by the provider-based regulations, the hospital may submit ALOS data for the satellite or remote location from the six-month period preceding the separation for purposes of qualifying for payment under the LTCH PPS.

Where Can I Find More Information about the LTCH PPS?

The following online references provide more information about the LTCH PPS:

- **The Medicare Learning Network Web Page**

The Medicare Learning Network (MLN) is the brand name for official CMS educational products and information for Medicare fee-for-service providers. For additional information visit the Medicare Learning Network's web page at <http://www.cms.hhs.gov/MLNGenInfo> on the CMS website.

- **Long-Term Care Hospital Prospective Payment System Web Page**

http://www.cms.hhs.gov/LongTermCareHospitalPPS/01_Overview.asp

The Long-Term Care Hospital Web Page provides the Final Rules and additional LTCH PPS-related documents.

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- **LTCH PPS Press Release Updating the LTCH PPS for Rate Year 2008**

<http://www.cms.hhs.gov/apps/media/press/release.asp?Counter=2154>

The press release summarizes how Medicare is updating the format and data of the LTCH PPS system for Rate Year 2008. These changes were also published in the Federal Register on May 11, 2007.

- **Changes to the Hospital Inpatient Prospective Payment System and Fiscal Year 2008 Rates**

<http://www.cms.hhs.gov/AcuteInpatientPPS/downloads/CMS-1533-FC.pdf>

The FY 2008 IPPS Final Rule establishes updates for the CCR ceiling and applicable statewide average CCRs used under the LTCH PPS, as well as adopts the Medicare Severity DRG (MS-LTC-DRG) as the new patient classification system for the LTCH PPS.

- **Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates; Correction; Final Rule**

<http://www.cms.hhs.gov/AcuteInpatientPPS/downloads/CMS-1533-CN2.pdf>

The above document corrects technical errors that appeared in the final rule with comment period entitled "Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates."

- **Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates; Correction; Final Rule**

<http://a257.g.akamaitech.net/7/257/2422/01jan20071800/edocket.access.gpo.gov/2007/07-5513.htm>

The above document corrects wage index, case-mix index, and geographic adjustment factor errors in the final rule with comment period that appeared in the August 22, 2007 Federal Register entitled "Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates Final Rule"; **and** the correction notice that appeared in the October 10, 2007 Federal Register entitled "Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates; Correction."

- **Federal Register Notice for Prospective Payment System for Long-Term Care Hospitals RY 2008: Annual Payment Rate Updates and Policy Changes**

<http://www.cms.hhs.gov/QuarterlyProviderUpdates/Downloads/CMS1529F.pdf>

The LTCH PPS Final Rule provides a more in-depth look at the changes for Rate Year 2008. This final rule also contains the establishment of a budget neutrality requirement for the annual MS-LTC-DRG update, extension of the 25 percent threshold adjustment, and revisions to the SSO policy that are effective October 1, 2007, under the LTCH PPS.

- **CMS Manual System - Medicare Claims Processing Manual - Update-Long Term Care Hospital Prospective Payment System (LTCH PPS) Rate Year 2008 (Transmittals 1268 and 5748)**

<http://www.cms.hhs.gov/transmittals/downloads/R1268CP.pdf>

<http://www.cms.hhs.gov/transmittals/downloads/R1354CP.pdf>

- **The CMS Manual System - Medicare Claims Processing Manual update provides updated payment rates, provisions, and updates to the Medicare Claims Processing Manual for the LTCH PPS Rate Year 2008**

<http://www.cms.hhs.gov/Manuals/IOM/list.asp>

Questions about high cost outliers and the LTCH PPS can be emailed to ltchpps@cms.hhs.gov.

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Where Can I Find More Information about ICD-9-CM Coding?

The LTCH PPS Final Rule emphasized that proper coding is essential for correct diagnosis and procedure reporting. The following online references provide ICD-9-CM coding guidance:

- **The ICD-9-CM Official Guidelines for Coding and Reporting**

<http://www.cdc.gov/nchs/data/icd9/icdguide.pdf>

The LTCH PPS Final Rule stated that the *ICD-9-CM Official Guidelines for Coding and Reporting* is essential reading for understanding how to report the proper diagnosis and procedure codes that are used in determining the MS-LTC-DRG payment amounts.

- **Updates to the ICD-9-CM Diagnosis and Procedure Codes**

<http://www.cms.hhs.gov/ICD9ProviderDiagnosticCodes/>

This website identifies the activities (including public meeting schedules and agendas) of the ICD-9-CM Coordination and Maintenance Committee charged with maintaining and updating the ICD-9-CM coding system.

This fact sheet was prepared as a service to the public and is not intended to grant rights or impose obligations. This fact sheet may contain references or links to statutes, regulations, or other policy materials. The information provided is only intended to be a general summary. It is not intended to take the place of either the written law or regulations. We encourage readers to review the specific statutes, regulations and other interpretive materials for a full and accurate statement of their contents.

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Visit www.cms.hhs.gov/LongTermCareHospitalPPS/01_Overview.asp on the CMS website for more information.